

Message Text

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ACTION STR-04

INFO OCT-01 NEA-10 ISO-00 AGR-05 EB-08 COM-02 TRSY-02

OMB-01 ITC-01 L-03 SP-02 CIAE-00 INR-07 NSAE-00

STRE-00 /046 W

-----020632Z 026055 /11

R 011223Z APR 77

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2352

INFO AMCONSUL BOMBAY

AMCONSUL MADRAS

AMCONSUL CALCUTTA

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 4672

PASS STR

E.O. 11652: N/A

TAGS: ETRD,EAGR, IN

SUBJECT: PRICE MECHANISM AND THE COST STRUCTURE OF THE INDIAN SUGAR INDUSTRY

REF: STATE 066941

1. THERE ARE TWO ESSENTIAL COMPONENTS OF THE PRICE AND COST STRUCTURE OF INDIAN SUGAR INDUSTRY. THE GOI BUYS 65 PERCENT OF THE INDUSTRY PRODUCTION, CALLED LEVY SUGAR, AT FIXED RATES WHICH ARE LOWER THAN THE COST OF PRODUCTION. THROUGH ITS OWN NETWORK OF FAIR PRICE SHOPS THE GOI SELLS LEVY SUGAR TO CONSUMERS AT CONTROLLED PRICES, WHICH ARE MUCH LOWER THAN THE MARKET PRICES OF FREE SUGAR. THE SUPPLY AND DEMAND SITUATION DETERMINES THE PRICE OF THE REMAINING 35 PERCENT FREE MARKET SUGAR. HOWEVER, THE SHARE IS LEVY SUGAR IS LOWER THAN THE PRESCRIBED 65 PERCENT FOR NEW SUGAR MILLS. THE LATEST AVAILABLE OFFICIAL COST DATA RELATE TO THE SUGAR YEAR 1971-72 BEGINNING OCTOBER 1. THIS IS CONTAINED IN THE GOI TARIFF COMMISSION REPORT (1973) ON "THE COST STRUCTURE OF
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AND FAIR PRICE PAYABLE TO THE SUGAR INDUSTRY", BEING POUCHED SEPARATELY TO STR. WE HAVE OBTAINED MOST OF THE INFORMATION RELATING TO THE SUBSEQUENT YEARS FROM INFORMAL DISCUSSIONS WITH THE INDIAN SUGAR MILLS ASSOCIATION (ISMA). END SUMMARY.

2. AVERAGE PRODUCTION COSTS. ACCORDING TO ISMA, THE AVERAGE ALL-INDIA PRODUCTION COST IS CURRENTLY ESTIMATED AT 11.34 CENTS PER

POUND (RS .225 PER QUINTAL 1/). INDUSTRY CURRENTLY ESTIMATES THAT SUGAR CANE PURCHASES ACCOUNT 68 PERCENT OF THE AVERAGE COST. THE REMAINING 32 PERCENT COVERS RETURNS AT 0.635 CENTS PER POUND, INCLUDING AN ESTIMATED INTEREST COMPONENT OF 0.353 CENTS PER POUND ON EMPLOYED CAPITAL, AND THE CONVERSION CHARGES AVERAGED AT 3.02 CENTS PER POUND. OF THESE CONVERSION CHARGES, FIXED COST IS APPROXIMATELY ESTIMATED AT 50 PERCENT, SEMI-VARIABLE AT LESS THAN 10 PERCENT AND VARIABLE AT 40 PERCENT. THE BASIC COST PATTERN HAS REMAINED ALMOST THE SAME SINCE 1971-72, DESPITE THE FACT THAT MOST COSTS OF PRODUCTION HAVE, ACCORDING TO INDUSTRY SOURCES, INCREASED 50-60 PERCENT. THE SHARE OF RETURNS HAS DECLINED MARGINALLY BECAUSE IT HAS BEEN CONSTANT AT 0.635 CENTS PER POUND.

1/ ALL THE FIGURES HAVE BEEN PROVIDED IN CENTS PER POUND CONVERTED AT THE RATE OF US DOLS 1.00 EQUALS RUPEES 9.00. ONE QUINTAL EQUALS 220.4622 POUNDS.

THE COST STRUCTURE FOR SELECTED STATES - UTTAR PRADESH, MAHARASHTRA, TAMILNADU, KARNATAKA, AND ANDHRA PRADESH (RESPONSIBLE FOR 78.3 PERCENT OF 1975-76 INDIAN SUGAR PRODUCTION) IS GIVEN BELOW:

COST- PATTERN OF SUGAR BASEDON FIVE YEARS ENDING
1971-72 FOR SELECTED INDIAN STATES

INDIAN STATES

1 2 3 4 5 6 7

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SHARE IN PRODUCTION
OF SUGARCANE IN
1975-76 (PERCENT)----- 40.8--- 13.4 10.5 7.0 6.6

SEASON DAYS (NUMBER) 144 149 115 171 189 146 122

RECOVERY FROM SUGAR- 9.2 9.1 9.3 11.2 8.5 10.3 9.6

CANE (PERCENT

EX-FACTORY PRICE 7.75 7.74 8.08 7.48 7.93 8.00 7.48

(CENTS PER OPOUND)&

COST-PATTERN (PERCENTAGES)

A) COST OF SUGARCANE 66.4 66.6 63.4 68.6 68.4 66.0 67.0

B) COVERSION 25.4 25.2 28.8 22.9 23.6 26.1 24.6

CHARGES

(I) CONSTANT (1.8) (2.2) (2.3) (2.7) (2.5) (2.3) (2.6)

(II) VARIABLE (12.3) (10.1) (9.8) (9.5) (7.0) (7.8) (6.7)

(III) SEMI-VARIABLE (3.2) (1.0) (1.9) (0.8) (1.9) (3.0) (1.9)

(IV) FIXED (8.2) (11.9) (14.8) (9.9) (12.1) (13.0) (13.4)

C) RETURN& 8.2 8.2 7.9 8.5 8.0 7.9 8.5

INDIAN STATES: 1. WESTERN UTTAR PRADESH
2. CENTRAL UTTAR PRADESH
3. EASTERN UTTAR PRADESH
4. MAHARASHTRA
5. TAMILNADU AND PONDICHERY
6. KARNATAKA
7. ANDHRA PRADESH

RETURN CONTINUES TO BE DETERMINED AT A FIXED RATE OF 0.635
CENTS PER POUND UNTIL SUGAR YEAR 1976-77, BEGINNING OCTOBER
1.

US DOLS 1.00 EQUALS RS. 9.00 FOR ALL CONVERSIONS.

SOURCE: BASED ON GOI-TARIFF REPORT ON "THE COST STRUCTURE OF AND
FAIR PRICE PAYABLE TO THE SUGAR INDUSTRY OF 1973.
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3. DOMESTIC PRICE PAID TO FARMERS. IN THE SUGAR YEAR 1976-77,
THE GOI'S STATUTORY MINIMUM PRICE OF SUGARCANE PAYABLE TO FARMER
CONTINUES TO BE 0.428 CENTS PER POUND FOR A RECOVERY OF 8.5
PERCENT, SUBJECT TO AN ADDITIONAL 0.0050399 CENTS PER
POUND FOR EVERY 0.1 PERCENT RECOVERY OVER 8.5 PERCENT. HOWEVER,
EACH STATE GOVT ANNOUNCES THE SUGARCANE PRICES PAYABLE TO FARMERS.
THESE PRICES ARE MUCH HIGHER THAN THE ALL-INDIA STATUTORY MINIMUM
PRICES. FOR THE CURRENT SUGAR YEAR, THESE PRICES IN CENTS PER
POUND OF SUGARCANE RANGE FROM A LOW OF 0.54 FOR TAMILNADU TO A
HIGH OF 0.76 FOR MAHARASHTRA. FOR OTHER MAJOR PRODUCING INDIAN
STATES THESE 1976-77 PRICES ARE (ALL IN CENTS PER POUND) 0.67
FOR WESTERN AND CENTRAL UTTAR PRADESH; 0.62 FOR EASTERN UTTAR
PRADESH; 0.71 FOR KARNATAKA; AND 0.60 FOR ANDHRA PRADESH.
ALTHOUGH INDUSTRY SOURCES CLAIM THAT ALL-INDIA AVERAGE IS AROUND
0.706 CENTS PER POUND, WE HAVE ESTIMATED WEIGHTED ALL-INDIA AVERAGE
(WEIGHTS BEING THE 1975-76 PRODUCTION LEVELS) DOMESTIC PRICE PAYABLE
TO FARMERS AT 0.66 CENTS PER POUND DURING 1976-77.

4. PRICE PAID TO SUGAR MILLS AND PRICE MECHANISM: FOR THE 65
PERCENT LEVY SUGAR, THE GOI ANNOUNCES THE LEVY PRICES PAYABLE
TO SUGAR MILLS BY PERIODIC NOTIFICATIONS. THESE REVISIONS ARE
BASED ON THE RECOMMENDATIONS OF A GOI-ORGANIZATION, BUREAU OF
INDUSTRIAL COSTS AND PRICES. THESE RECOMMENDATIONS, IN TAN
N,
ARE PRESUMED TO TAKE INTO ACCOUNT AN ASSESSMENT OF THE COST
STRUCTURE, ESPECIALLY THE CONVERSION CHARGES. THE LATEST REVISION
WAS EFFECTIVE 3 AUGUST 1976. THESE REVISED LEVY PRICES RANGE FROM
A LOW OF 7.15 CENTS PER POUND FOR ANDHRA PRADESH TO A HIGH OF
13.84 CENTS PER POUND FOR SOUTH BIHAR. THE OVERALL AVERAGE FOR
INDIA IS 8.47 CENTS PER POUND. THESE LEVY PRICES PRESENTLY

RESULT ON AN AVERAGE, IN A LOSS TO SUGAR MILLS OF 2.87 CENTS
PER POUND FOR THE LEVY SUGAR. THE SUGAR MILLS OFFSET THIS LOSS
AND THE ESCALATED COSTS OF SUGARCANE AND CONVERSION CHARGES BY
MEANS OF THEIR SALE OF FREE SUGAR. (CONT...)

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THE PRICE MECHANISM PAID TO SUGAR MILLS, THEREFORE, COMPRISES
TWO SEGMENTS, ONE FOR LEVY SUGAR WHICH IS DETERMINED BY GOI AND
WHICH IS MUCH LOWER THAN THE COST OF PRODUCTION, AND THE SECOND
PAID BY WHOLESALERS IN THE OPEN MARKET. LESS SIGNIFICANT FACTORS
ENTERING THE PRICE MECHANISM ARE (EXCLUDING EXCISE DUTY) CANE
PURCHASE TAX AT AN AVERAGE P.076 CENTS PER POUND AND TOLL CHARGES,
BOTH OF WHICH VARY FROM STATE TO STATE. TRANSPORTATION COST IS
ESTIMATED AT AN AVERAGE OF 1.26 CENTS PER POUND, AND THE WHOLE-
SALER AND RETAILERS MAGIN AT 0.50 CENTS PER POUND. THE EX-FACTORY
PRICES CHARGED BY SUGAR MILLS ARE INDICATED BELOW:

OVERALL AVERAGE EX-FACTOR PRICES OF FREE SUGAR
(EXCLUDING EXCISE DUTY)
(CENTS PER LB.)

SUGAR YEAR 1974-75 AT 15.98
1975-76 AT 15.62

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OCTOBER 1976 16.88
NOVEMBER 1976 16.88
DECEMBER 1976 14.62 -14.87
JANUARY 1977 14.36-14.62
FEBRUARY 1977 13.61
MARCH 1977 12.85

ON CURRENT TRENDS, THE 1976-77 AVERAGE MAY NOT EXCEED 13.86

5. EXCISE DUTIES. THE GOI ANNOUNCES ON FIRST OF EVERY MONTH THE TARIFF VALUE FOR FREE SALE OF SUGAR. EFFECTIVE MARCH 1, 1975 THE SUGAR MILLS HAVE BEEN PAYING EXCISE DUTY AT THE RATE OF 45 PERCENT, AD VALOREM ON THIS TARIFF VALUE, WHICH IS THE EX-FACTORY PRICE WITH A TIME LAG OF 2 TO 2 1/2 MONTHS. ON SEPTEMBER 20, 1976, THE GOI DECIDED TO RE-INTRODUCE THE SCHEME OF EXCISE DUTY RELIEF FOR THE SUGAR INDUSTRY TO STIMULATE SUGAR RODUCTION. THE SCHEME IS APPLICABLE FOR THE SUGAR SEASON 1976-77. FOR THE PERIOD OCTOBER-NOVEMBER 1976, THE EXCESS PRODUCTION DURING THESE TWO MONTHS OVER THE AVERAGE PRODUCTION OF THE CORRESPONDING TWO MONTHS DURING THE PRECEDING 5 YEARS WILL BE ELIGIBLE FOR EXCISE RELIEF. THE EXCESS PRODUCTION WILL BE CHARGED AT ABOUT 25 PERCENT OF THE DUTY OTHERWISE PAYABLE. THIS RELIEF WILL, HOWEVER, BE AVAILABLE ONLY WHEN TOTAL PRODUCTION IN THE 1976-77 SUGAR SEASON EXCEEDS THE TOTAL PRODUCTION AVERAGED OVER THE PRECEDING 3 SUGAR SEASONS, IN RESPECT OF EACH FACTORY. FOR THE REST OF THE PERIOD IN THE 1976-77 SUGAR SEASON, THE SCHEME WILL BE AS FOLLOWS:
(A) THE EXCESS PRODUCTION DURING THE PERIOD DECEMBER 1976 TO SEPTEMBER 1977 OVER THE AVERAGE PRODUCTION IN THE CORRESPONDING 10 MONTHS DURING THE PRECEDING 3 SUGAR YEARS INCLUDING 1975-76, WILL BE ELIGIBLE FOR EXCISE RELIEF; AND
(B) THE EXCISE DUTY WILL BE CALCULATED AT ABOUT 75 PERCENT OF THE DUTY OTHERWISE PAYABLE ON THIS EXCESS PRODUCTION.

6. RETAIL CONSUMER PRICE. SINCE DECEMBER 1972, THE RETAIL CONSUMER PRICE FOR LEVY SUGAR FROM FAIR PRICE RATION SHOPS CONTINUES TO BE 10.84 CENTS PER POUND THROUGHOUT INDIA. IN THE SUGAR YEAR
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1975-76, PRICE OF SUGAR IN THE FREE MARKET REFLECTED WIDE FLUCTUATIONS. IN BOMBAY THESE PRICES RANGED BETWEEN 20.2 TO 24.2 CENTS PER POUND. (COMPARED TO 21.2 TO 28.0 CENTS PER POUND IN THE PRECEDING YEAR). DURING OCTOBER-DECEMBER 1976, ALL-INDIA RETAIL CONSUMER PRICE FOR SUGAR WAS AROUND 25.2 CENTS PER POUND AND RUING JANUARY-MARCH 1977 IT RANGED BETWEEN 21.2 AND 22.7 CENTS PER POUND. (WHOLESALE PRICE INDEX OF FREE MARKET SUGAR ON MARCH 31, 1977 (BASE 1969-70 EQUALS 100) WAS 175.4, COMPARED TO 184.7 A MONTH

AGO AND 194.4 A YEAR AGO.)

7. AVERAGE UNIT VALUE OF EXPORTS. THSE ARE AS FOLLOWS IN CENTS
POUND F.O.B.

CANE	CANE SUGAR	CANE SUGAR
JAGGERY	CANDY	REFINED

IFY 1975-76 BEGINNING
APRIL 1

ITEM SHARED IN VLUE TOTAL	0.1	0.1	99.8
OF SUGAR EXPORTS (PERCENT			
UNIT VALUE (CENT PER			
POUND)	10.80	15.67	19.81

APRIL-NOVEMBER 1976
PERIOD OF IFY 1976-77

ITEM SHARE IN VLUE TOTAL	NEGLIGIBLE	NEGLIGIBLE	99.95
OF SUGAR EXPORTS (PERCENT)			

UNIT VALUE (CENT PER POUND)	12.72	16.63	14.43
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8. PREFERENTIAL SHIPMENTS. INDIA NO LONGER EXPORTS SUGAR ON
PREFERNTIAL SHIPMENT BASIS. HOWEVER, INDIA SIGNED A LONG TERM
CONTRACT WITH IRAN FOR EXPORT OF 500,000 MT OF SUGAR, FOR A
PERIOD OF 2 1/2 YEARS COMMENCING IN 1974-75.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, COSTS, PRICES, PRODUCTION DATA
Control Number: n/a
Copy: SINGLE
Sent Date: 01-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770114-0152
Format: TEL
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770498/aaaadhlc.tel
Line Count: 313
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Office: ACTION STR
Original Classification: LIMITED OFFICIAL USE
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Reference: 77 STATE 66941
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